CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 1, 2003

S. 129
Federal Workforce Flexibility Act of 2003

As ordered reported by the Senate Committee on Governmental Affairs on October 22, 2003

SUMMARY

S. 129 would amend laws affecting civilian employees of the federal government. Major provisions of the bill would increase federal retirement benefits for some workers who performed part-time service and would affect the way time spent at a U.S. military academy is credited for retirement purposes. The legislation also would amend current laws related to recruitment, relocation, and retention bonuses, as well as agency training.

CBO estimates that enacting S. 129 would increase direct spending by $4 million in 2004, $71 million over the 2004-2008 period, and $233 million over the 2004-2013 period. Enacting the bill would increase revenues by less than $500,000 annually starting in 2005. In addition, CBO estimates that implementing S. 129 would cost $351 million over the 2004-2008 period and $756 million over the 2004-2013 period for various administrative requirements—assuming appropriation of the necessary amounts.

S. 129 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 129 is shown in the following table. The direct spending costs of this legislation fall within budget function 600 (income security); the spending subject to appropriation would fall across multiple budget functions.

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING [a]										
CSRS Retirement Benefits for Part-Time Service										
Estimated Budget Authority	4	10	14	18	21	24	26	28	30	31
Estimated Outlays	4	10	14	18	21	24	26	28	30	31
Retirement Benefits for Service Academy Credits										
Estimated Budget Authority	0	*	1	2	2	3	4	5	5	6
Estimated Outlays	0	*	1	2	2	3	4	5	5	6
Refunds of Payments Made to CSRDF										
Estimated Budget Authority	0	-1	0	0	0	0	0	0	0	0
Estimated Outlays	0	-1	0	0	0	0	0	0	0	0
Total Changes										
Estimated Budget Authority	4	9	15	20	23	27	30	33	35	37
Estimated Outlays	4	9	15	20	23	27	30	33	35	37
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Enhanced Recruitment, Relocation, and Retention Bonuses										
Estimated Authorization Level	67	69	70	72	74	76	79	81	83	86
Estimated Outlays	66	69	70	72	74	76	79	81	83	86

NOTES: CSRS = Civil Service Retirement System; CSRDF = Civil Service Retirement and Disability Fund.

* = less than $500,000.

a. The bill also would increase revenues, but by less than $500,000 a year, beginning in 2005.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 129 will be enacted early in 2004.

Direct Spending and Revenues

Civil Service Retirement Benefits for Part-Time Service. Section 103 would alter the way retirement benefits under the Civil Service Retirement System (CSRS) are calculated for workers with part-time service. The bill would apply to workers who performed work prior to April 7, 1986, have some part-time service, and retire after the bill is enacted. Based on information from Office of Personnel Management (OPM), CBO estimates that this provision would cost $4 million in 2004, $67 million over the 2004-2008 period, and $206 million over the 2004-2013 period.

Under current law, benefits for CSRS workers with part-time service are calculated using a two-step process. For workers with service prior to April 7, 1986, the current formula uses the highest salary the worker actually earned to reflect the part-time employment. For work on or after April 7, 1986, the formula uses a deemed salary (what the worker would have been earning if the worker had been working full time) to determine benefits and applies a pro-rata factor to adjust for part-time service. In effect, the current formula tends to treat new retirees with part-time service early in their careers more favorably than those whose part-time service comes at the end of their careers.

Section 103 would calculate CSRS benefits for all part-time service according to the formula currently used to determine benefits for service performed on or after April 7, 1986. The legislation also contains a hold-harmless provision to ensure that no one receives a smaller annuity under the proposal than they would get under current law. CBO estimates section 103 would affect benefits for several thousand new CSRS retirees each year. Depending on an individual employee's work history, benefits for those retirees could be more than 30 percent higher than they would be if calculated under the current formula.

Allow Time Spent at Service Academies to Be Creditable For Civilian Retirement. Section 104 would continue to allow time spent at any of the four U.S. military academies be considered creditable service under CSRS and the Federal Employees' Retirement System (FERS). These two pension programs, which cover most civilian federal workers, allow time served as an active-duty member of the U.S. armed forces to be used as creditable service provided that it is not already being credited toward military retirement benefits and a deposit to purchase the credits is made to the Civil Service Retirement and Disability Fund (CSRDF). Virtually all civilian employees who have performed military service and are not collecting military retirement benefits choose to have their military service credited toward their civilian pensions.

Although current law is silent about whether time spent at a military service academy—typically four years—should be treated as creditable military service under CSRS and FERS, OPM historically has allowed such service to be credited. Following several court rulings, however, OPM has indicated that it no longer believes such treatment is permissible under the law. As a result, at some point in the near future, time spent at military academies will no longer be creditable under either civilian retirement program. CBO assumes this change will take place in early 2005.

Based on data from OPM and the Department of Defense, CBO estimates that, of the current federal civilian workforce (including Postal Service employees), approximately 2,200 employees or just less than 1 percent have graduated from a U.S. service academy. Of the 120,000 federal employees who begin collecting retirement benefits each year, we further estimate that about 100 will have graduated from a service academy. For those retiring with CSRS benefits, four years of creditable service represents 8 percentage points of their annuity. For those retiring under FERS, four years of service represents between 4.0 percentage points and 4.4 percentage points of their annuity. By allowing time spent at a service academy to continue being used as creditable service under CSRS and FERS, this bill would increase retirement benefits above what they would be once OPM stops crediting such service. CBO estimates this section of the bill would increase direct spending on retirement benefits by less than $500,000 in 2005, $5 million during the 2005-2008 period, and $28 million over the 2005-2013 period.

In order to have military service credited toward civilian retirement benefits, a deposit must be made by the employee into the CSRDF. For those under the CSRS program, the deposit equals 7 percent of the basic pay received while performing the service, and under the FERS the deposit equals 3 percent of basic pay. Once OPM stops crediting time spent at an academy as military service, refunds will be made to employees who already made such deposits. Under this legislation, those refunds would not be made, which CBO estimates would reduce direct spending by $1 million in 2005. By continuing to allow time spent at academies to be purchased as creditable service, the bill would also increase future deposits into the CSRDF. We estimate these deposits would increase federal revenues by less than $500,000 annually over the 2005-2013 period.

Spending Subject to Appropriation

Recruitment, Relocation, and Retention Bonuses. Section 101 allows OPM to authorize agencies to pay enhanced recruitment and relocation bonuses for new or existing career employees (not political appointees). Unlike the current bonuses of 25 percent of basic pay, the enhanced bonuses could total up to 25 percent of annual basic pay for up to four consecutive years. Current law provides for retention allowances of up to 25 percent of basic pay over the period of service. Section 101 allows OPM to authorize agencies to pay enhanced retention bonuses to individual career employees (25 percent of basic pay) or groups of employees (10 percent of basic pay). With a waiver from OPM, all three of these bonuses could be further increased to up to 50 percent of basic pay in a given year.

Unlike the current bonuses and allowances, these enhanced bonuses can be paid in installments or in lump sums (or any suitable combination) and require the employee to enter into a written service agreement with the employing agency.

The cost of these enhanced bonuses depends on how extensively the agencies use the new authorities, and that information is not available. Based on information from OPM, in 2002 the existing authorities were used to pay bonuses totaling $129 million to just under 20,000 new and existing employees across the government. Granting the maximum allowable level of enhanced bonuses to this number of employees could roughly double to quadruple this cost over time. CBO assumes that agencies paying recruitment bonuses would, on average, double the amount of these bonuses they award to new employees, and also would increase outlays for retention bonuses by one-quarter. CBO estimates that this would result in a cost of $351 million over the 2004-2008 period and $756 million over the 2004-2013 period, assuming the appropriation of the necessary funds.

SES Authority for White House Office of Administration. Section 105 would allow the White House Office of Administration (OA) to hire new (or convert existing) employees to career Senior Executive Service (SES) positions. OA expects to convert 11 existing employees from General Schedule (GS) status to SES status, eventually resulting in higher pay and bonuses for these individuals. The section also changes the pay cap for non-SES employees of the Vice President, the White House Office, the executive residence, the domestic policy staff, and OA from $115,184 including locality pay (minimum for a GS-16) to $124,783 including locality pay (maximum for a GS-15). Relatively few of these employees are believed to be near the cap, however. CBO estimates that the cost of these two provisions would not be significant.

Agency Training. Section 201 would require each agency to designate a training officer to coordinate and administer training programs. In consultation with OPM, each agency would establish a comprehensive management program to train employees and develop managers. CBO expects that the new requirements would not add significant costs because the requirements mostly reflect current agency practices.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 129 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs:
  Federal Employment Recruitment Benefits: Geoffrey Gerhardt
  Federal Employee Pay and Bonuses: Ellen Hays
  Agency Training: Matthew Pickford

Impact on State, Local, and Tribal Governments: Sarah Puro

Impact on the Private Sector: Selena Caldera

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis